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December 8, 2000

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

Magalie Roman Salas  
Secretary  
Federal Communications Commission  
The Portals  
Washington, DC 20554

Re: **Estimates of Quantitative Effects**  
LEC Multi-Association Group Petition for Rulemaking  
*Improved Regulation of Interstate Services of*  
*Non-Price Cap Incumbent Local Exchange Carriers*  
*and Interexchange Carriers*  
RM No. \_\_\_\_

Dear Ms. Roman Salas:

The LEC Multi-Association Group (the "Group"),<sup>1</sup> by its counsel, hereby provides estimates of the effects of its holistic plan for the Commission's regulation of those incumbent local exchange carriers ("LECs") not subject to price cap regulation ("non-price cap LECs") and interexchange carriers ("IXCs"). The Group filed the plan with the Commission on October 20, 2000 as a petition for rulemaking (the "petition"). The Group provides these estimates in order to help the Commission evaluate the plan.<sup>2</sup> These estimates demonstrate the plan's substantial benefits for end users, IXCs, and non-price cap LECs.

Estimates of the plan's quantitative effects depend on a variety of assumptions. Such estimates depend to a large degree on assumptions about the type of regulation that non-price cap LECs will elect under the plan. Prior to the proposed start of the plan on July 1, 2001, non-price cap LECs must elect one of two regulatory paths, Path A or Path

<sup>1</sup> The Group consists of the National Rural Telecom Association ("NRTA"), the National Telephone Cooperative Association ("NTCA"), the Organization for the Promotion and Advancement of Small Telecommunications Companies ("OPASTCO"), and the United States Telecom Association ("USTA").

<sup>2</sup> The National Exchange Carrier Association ("NECA") provided numerical support for the development of the estimates presented here.

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B, on a per-operating company basis. Path A includes a form of incentive regulation that is based on freezing, in real terms, a LEC's revenues and much of its universal service support on a per-line, per-study area basis.

The plan's effects therefore will vary depending on the number of lines associated with study areas subject to either Path A or Path B. Tables B-D present three illustrative scenarios. In the first, all non-price cap study areas elect Path A and immediately move to incentive regulation.<sup>3</sup> In the second scenario, all Subset 2 and average schedule study areas elect incentive regulation under Path A.<sup>4</sup> In the third scenario, only the Subset 2 study areas elect incentive regulation under Path A.<sup>5</sup> Other general assumptions made in performing these estimates are listed on the attachment to this letter.

**Revenue Neutrality:** The plan is revenue-neutral. Under the plan, interstate access revenues, plus the new explicit universal service support mechanism known as rate averaging support (the "RAS"), are estimated to be about the same as access revenues are projected to be for non-price cap LECs if the current regulatory structure, authorized rate of return, and access charge levels are maintained. Table A below illustrates the changes in this quantity during the plan's five-year transition period, assuming that the plan begins on July 1, 2001.

<b>Table A: Revenue Neutrality Under The Plan</b>					
	2001- 2002	2002- 2003	2003- 2004	2004- 2005	2005- 2006
All study areas subject to Path A incentive regulation: estimated access revenues plus RAS	\$3.0 billion	\$3.2 billion	\$3.3 billion	\$3.5 billion	\$3.7 billion
All study areas subject to rate-of-return regulation: estimated access revenues	\$3.0 billion	\$3.2 billion	\$3.3 billion	\$3.5 billion	\$3.7 billion

<sup>3</sup> These estimates include for completeness the Puerto Rico Telephone Company ("PRTC"). Whether PRTC is included in such estimates affects them. For example, the estimated size of the RAS on July 1, 2001 if PRTC is not included is \$504 million, assuming that all study areas go to Path A incentive regulation. If, as in these estimates, PRTC is included, the estimated size of the RAS is \$521 million, assuming that all study areas go to Path A incentive regulation. See Table D, *infra*.

<sup>4</sup> "Subset 2" study areas refer to study areas of those non-RBOC LEC holding companies with total annual operating revenues in excess of \$40 million. See 47 C.F.R. § 69.602(a).

<sup>5</sup> The Group cannot predict whether any of these scenarios might actually occur, although it has stated its belief that LECs electing Path A will be those serving a majority of access lines of LECs subject to the plan. See petition at 5.

**Effects on End Users:** Table B below summarizes the estimated savings by end users under the plan. As an example to explain the table, if one were to assume that all non-price cap study areas elect Path A incentive regulation, the plan is estimated to save end users about \$84 million dollars in the first year of the plan, starting July 1, 2001. These savings depend on IXC's passing through to end users the savings from access charge reductions that they realize under the plan, net of universal service contributions. These passed-through savings are estimated to be about \$301 million, which exceeds by \$84 million the estimated increases in the subscriber line charges, which are expected to total about \$217 million.

<b>Table B: Estimated Savings To End Users</b>					
	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
All study areas subject to Path A incentive regulation	\$84 million	\$120 million	\$160 million	\$210 million	\$265 million
All Subset 2 and Average Schedule study areas subject to Path A incentive regulation	\$56 million	\$80 million	\$109 million	\$146 million	\$190 million
All Subset 2 study areas subject to Path A incentive regulation	\$24 million	\$42 million	\$64 million	\$93 million	\$128 million

**Access Charge Reductions to IXC's:** Table C below summarizes the access charge reductions estimated under the plan. As an example to explain the table, if one were to assume that all non-price cap study areas elect Path A incentive regulation, in 2001-2002, IXC's are estimated to save about \$702 million in access charges under the plan, calculated as the decrease in access rates times projected minutes of use.

<b>Table C: Estimated Access Charge Savings To IXC's</b>					
	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
All study areas subject to Path A incentive regulation	\$702 million	\$914 million	\$1.1 billion	\$1.2 billion	\$1.3 billion
All Subset 2 and Average Schedule study areas subject to Path A incentive regulation	\$471 million	\$665 million	\$817 million	\$883 million	\$956 million
All Subset 2 study areas subject to Path A incentive regulation	\$333 million	\$521 million	\$667 million	\$719 million	\$778 million

**Size of Rate Averaging Support:** Table D below presents estimates of the size of the RAS at the beginning and the end of the five-year transition period. Under the plan, the new explicit universal service mechanism known as the RAS is available only to the study areas of Path A LEC's that participate in the NECA pooling system. Thus, estimates

of the size of the RAS depend directly on assumptions about participation in both Path A and the pool.

<b>Table D: Estimated Size Of RAS</b>						
	July 1, 2001	July 1, 2002	July 1, 2003	July 1, 2004	July 1, 2005	July 1, 2006
All study areas subject to Path A incentive regulation	\$521 mill.	\$530 mill.	\$541 mill.	\$575 mill.	\$613 mill.	\$654 mill.
All Subset 2 and Average Schedule study areas subject to Path A incentive regulation	\$257 mill.	\$258 mill.	\$259 mill.	\$270 mill.	\$281 mill.	\$291 mill.
All Subset 2 study areas subject to Path A incentive regulation	\$119 mill.	\$120 mill.	\$121 mill.	\$125 mill.	\$129 mill.	\$132 mill.

#### **An Example -- Comparative Size Of Existing Universal Service Support**

**Mechanisms:** Table E below compares the hypothetical size of existing universal service mechanisms under three regulatory regimes: (i) the current FCC rules, (ii) the Plan, which would remove caps on such support, and (iii) the Rural Task Force ("RTF") recommendation, which would increase such caps. Table E assumes for simplicity that all non-price cap study areas elect Path A incentive regulation. Table E compares the estimated size of the High Cost Fund ("HCF"), Long Term Support ("LTS"), and Local Switching Support ("LSS") for the current members of NECA's common line pool at the beginning and end of the proposed five-year transition period.

<b>Table E: Illustrative Estimated Size Of Existing Universal Service Support Mechanisms; Assumption -- All Study Areas Subject To Path A Incentive Regulation</b>						
	July 1, 2001			July 1, 2006		
	Current Rules	Plan	RTF	Current Rules	Plan	RTF
HCF	\$705 mill.	\$869 mill.	\$844 mill.	\$817 mill.	\$1.14 bill.	\$1.12 bill.
LTS	\$485 mill.	\$485 mill.	\$485 mill.	\$523 mill.	\$634 mill.	\$523 mill.
LSS	\$344 mill.	\$344 mill.	\$344 mill.	\$344 mill.	\$451 mill.	\$362 mill.

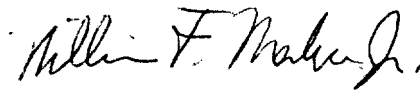
**An Example -- Comparative Size Of Total Universal Service Support:** To carry on the illustrative example of Table E, Table F below compares hypothetical total universal service support for non-price cap LECs under (i) current rules, (ii) the Plan, and (iii) the RTF recommendation, at the beginning and the end of the five-year transition period. Like Table E, Table F assumes for simplicity that all non-price cap study areas elect Path A incentive regulation. The totals shown in Table F are the sum of HCF, LTS, and LSS, as shown in Table E, and either the RAS or High Cost Fund 3 ("HCF3") under the RTF recommendation.<sup>6</sup>

<sup>6</sup> The Group has not estimated the size of HCF3.

<b>Table F: Illustrative Estimated Total Universal Service Support Assumption -- All Study Areas Subject To Path A Incentive Regulation</b>					
July 1, 2001			July 1, 2006		
Current Rules	Plan	RTF	Current Rules	Plan	RTF
\$1.53 bill.	\$2.22 bill.	\$1.67 bill. + HCF3	\$1.68 bill.	\$2.88 bill.	\$2.00 bill. + HCF3

The Group believes that the estimates contained in Tables A-E demonstrate further the substantial benefits that the plan brings to end users and IXC's as well as non-price cap LECs. Please do not hesitate to contact the undersigned with any questions or comments.

Very truly yours,



William F. Maher, Jr.

Attachment

cc: Dorothy Attwood  
Carol Matthey  
Jane Jackson  
Katherine Schroder  
Rich Lerner  
Sharon Webber  
Jack Zinman  
Robert Loube  
Doug Slotten  
Rhonda Lien  
Paula-Ann Cech

**ATTACHMENT:**  
**Basic Assumptions For Quantitative Estimates**

1. **General.** These estimates are based on all study areas that are participants in NECA's July 1, 2000 Common Line ("CL") tariff. They attempt to account for study areas that do not participate in NECA's Traffic Sensitive pool.
2. **Assumed Growth Rates For Study Areas Under Path A Incentive Regulation.** Revenue requirements and LTS/LSS increase by line growth, assumed to be 4.0% plus inflation, assumed to be 1.5%. Subscriber Line Charge ("SLC") revenues are assumed to increase by the same line growth factor, combined with higher SLCs. The 4.0% line growth projection used for the MAG plan is less than the 4.8% level in NECA's July 1, 2000, annual filing (the "2000 filing") to account for the likely shift in future years from traditional common lines to Digital Subscriber Lines ("DSLs") as the preferred connection to the Internet. DSLs carry voice and high-speed data simultaneously. This likely increase in DSLs is assumed to reduce the demand for common lines. However, it is assumed that DSL use will not reduce the demand for interstate access minutes. The assumed rate of inflation is based on the percentage change in the chain-type GDP-PI published by the US Department of Commerce. Chargeable minutes are assumed to grow at 8.9%. This is the projected rate filed in support of the 2000 filing.
3. **Assumed Growth Rates For Study Areas Under Rate Of Return Regulation.** CL revenue requirement is assumed to grow by 5.3% and switched revenue requirement is assumed to grow by 5.8%. These are the growth rates filed in support of the 2000 filing. According to current FCC rules, Long Term Support ("LTS") grows by the rate of inflation, 1.5%. Underlying the 2000 filing, there was no appreciable change in Local Switching Support ("LSS"), so no growth for LSS was assumed. SLC revenues are assumed to increase by line growth (4.0%) combined with higher SLCs. Chargeable minutes are assumed to grow at 8.9%.